

Part I. FINANCIAL INFORMATION
Item 1. Financial Statements

Automatic Data Processing, Inc. and Subsidiaries
Consolidated Statements of Earnings

(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,	
	<u>2003</u>	<u>2002</u>
REVENUES:		
Revenues other than interest on funds held for clients and PEO revenues	\$1,532,389	\$1,476,424
Interest on funds held for clients	82,934	89,865
PEO revenues (A)	<u>104,954</u>	<u>80,396</u>
TOTAL REVENUES	<u>1,720,277</u>	<u>1,646,685</u>
EXPENSES:		
Operating expenses	794,241	708,468
Selling, general and administrative expenses	426,878	447,953
Systems development and programming costs	131,754	119,898
Depreciation and amortization	74,726	67,684
Other income, net	<u>(18,592)</u>	<u>(37,718)</u>
TOTAL EXPENSES	<u>1,409,007</u>	<u>1,306,285</u>
EARNINGS BEFORE INCOME TAXES	311,270	340,400
Provision for income taxes	<u>116,420</u>	<u>130,000</u>
NET EARNINGS	<u>\$ 194,850</u>	<u>\$ 210,400</u>
BASIC EARNINGS PER SHARE	<u>\$ 0.33</u>	<u>\$ 0.35</u>
DILUTED EARNINGS PER SHARE	<u>\$ 0.32</u>	<u>\$ 0.34</u>
Basic average shares outstanding	<u>594,843</u>	<u>606,814</u>
Diluted average shares outstanding	<u>600,849</u>	<u>612,517</u>
Dividends per common share	<u>\$.1200</u>	<u>\$.1150</u>

(A) Net of pass-through costs of \$911,569 and \$763,379, respectively.

See notes to the consolidated financial statements.

Automatic Data Processing, Inc. and Subsidiaries
Consolidated Balance Sheets

(In thousands, except per share amounts)

	(Unaudited) September 30, 2003	June 30, 2003
	<u>2003</u>	<u>2003</u>
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,351,711	\$ 1,410,218
Short-term marketable securities	507,716	595,166
Accounts receivable, net	931,793	1,005,833
Other current assets	534,647	664,284
Total current assets	<u>3,325,867</u>	<u>3,675,501</u>
Long-term marketable securities	457,743	338,959
Long-term receivables	173,190	180,354
Property, plant and equipment, net	604,504	614,701
Other assets	676,528	565,385
Goodwill	1,942,493	1,981,131
Intangible assets, net	648,454	669,891
Total assets before funds held for clients	<u>7,828,779</u>	<u>8,025,922</u>
Funds held for clients	10,885,607	11,807,749
Total assets	<u>\$18,714,386</u>	<u>\$19,833,671</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 149,354	\$ 173,988
Accrued expenses and other liabilities	1,319,077	1,609,665
Income taxes payable	239,103	215,130
Total current liabilities	<u>1,707,534</u>	<u>1,998,783</u>
Long-term debt	84,713	84,674
Other liabilities	291,960	270,267
Deferred income taxes	285,775	320,796
Deferred revenues	401,702	338,763
Total liabilities before client funds obligations	<u>2,771,684</u>	<u>3,013,283</u>
Client funds obligations	10,593,069	11,448,915
Total liabilities	<u>13,364,753</u>	<u>14,462,198</u>
Shareholders' equity:		
Common stock, \$0.10 par value: authorized 1,000,000 shares; issued 638,702 shares, respectively	63,870	63,870
Capital in excess of par value	180,838	211,339
Retained earnings	6,834,299	6,710,863
Treasury stock at cost: 44,264 and 43,863, respectively	(1,777,493)	(1,773,418)
Accumulated other comprehensive income	48,119	158,819
Total shareholders' equity	<u>5,349,633</u>	<u>5,371,473</u>
Total liabilities and shareholders' equity	<u>\$18,714,386</u>	<u>\$19,833,671</u>

See notes to the consolidated financial statements.

Automatic Data Processing, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Three Months Ended September 30,	
	2003	2002
<u>Cash Flows From Operating Activities:</u>		
Net earnings	\$ 194,850	\$ 210,400
Adjustments to reconcile net earnings to net cash flows provided by operating activities:		
Expenses not requiring outlay of cash	178,819	118,258
Changes in operating net assets	(209,349)	(91,870)
Net cash flows provided by operating activities	164,320	236,788
<u>Cash Flows From Investing Activities:</u>		
Purchases of marketable securities	(1,440,879)	(706,635)
Proceeds from sale of marketable securities	910,078	859,066
Net proceeds from client fund money market securities	1,315,541	2,407,318
Net change in client funds obligations	(855,846)	(2,286,144)
Capital expenditures	(37,731)	(27,208)
Additions to intangibles	(20,047)	(31,333)
Acquisitions of businesses, net of cash acquired	(645)	(29,026)
Other	3,902	727
Net cash flows (used in) provided by investing activities	(125,627)	186,765
<u>Cash Flows From Financing Activities:</u>		
Proceeds from short-term borrowings	109	399
Payments of debt	(441)	(396)
Proceeds from stock purchase plan and exercises of stock options	38,772	33,093
Repurchases of common stock	(64,332)	(640,318)
Dividends paid	(71,308)	(69,362)
Net cash flows used in financing activities	(97,200)	(676,584)
Net change in cash and cash equivalents	(58,507)	(253,031)
Cash and cash equivalents, beginning of period	1,410,218	798,810
Cash and cash equivalents, end of period	\$1,351,711	\$ 545,779

See notes to the consolidated financial statements.

Automatic Data Processing, Inc. and Subsidiaries
Notes to the Consolidated Financial Statements

(Unless otherwise noted, amounts in thousands, except per share amounts)
(Unaudited)

Note 1. Basis of Presentation

The accompanying unaudited Consolidated Financial Statements reflect all adjustments which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods. Adjustments are of a normal recurring nature. Certain reclassifications have been made to the prior period amounts to conform to the current period presentation. These unaudited Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and related notes of Automatic Data Processing, Inc. and Subsidiaries (ADP or the Company) as of and for the year ended June 30, 2003. The results of operations for the three months ended September 30, 2003 may not be indicative of the results to be expected for the year ending June 30, 2004.

Note 2. Adoption of New Accounting Pronouncements

In March 2003, the Emerging Issues Task Force (EITF) published Issue No. 00-21 "Accounting for Revenue Arrangements with Multiple Deliverables" (EITF 00-21). EITF 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which it performs multiple revenue-generating activities and how to determine whether such an arrangement involving multiple deliverables contains more than one unit of accounting for purposes of revenue recognition. The guidance in this Issue is effective for revenue arrangements entered in fiscal periods beginning after June 15, 2003. Accordingly, the Company has adopted EITF 00-21 effective July 1, 2003. EITF 00-21 does not have a material impact on the Consolidated Financial Statements.

Note 3. Earnings Per Share (EPS)

	For the three months ended September 30,					
	2003			2002		
	<u>Net</u> <u>Earnings</u>	<u>Average</u> <u>Shares</u>	<u>EPS</u>	<u>Net</u> <u>Earnings</u>	<u>Average</u> <u>Shares</u>	<u>EPS</u>
Basic	\$194,850	594,843	\$0.33	\$210,400	606,814	\$0.35
Effect of zero coupon subordinated notes	327	1,606		313	1,797	
Effect of stock options	<u>-</u>	<u>4,400</u>		<u>-</u>	<u>3,906</u>	
Diluted	<u>\$195,177</u>	<u>600,849</u>	<u>\$0.32</u>	<u>\$210,713</u>	<u>612,517</u>	<u>\$0.34</u>

Note 4. Fair Value Accounting for Stock-Based Compensation

The Company accounts for its stock option and employee stock purchase plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations, as permitted by Statement of Financial Accounting Standards (SFAS) No. 123 "Accounting for Stock-Based Compensation" (SFAS No. 123). No stock-based employee compensation expense related to the Company's stock option and stock purchase plans is reflected in net earnings, as all options granted under the stock option plans had an exercise price equal to the market value of the underlying common stock on the date of grant, and for the stock purchase plans the discount does not exceed fifteen percent.

The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation.

	Three Months Ended September 30,	
	<u>2003</u>	<u>2002</u>
Net earnings, as reported	\$194,850	\$210,400
Deduct: Total stock-based employee compensation expense determined using the fair value based method for all awards, net of related tax effects	<u>(27,084)</u>	<u>(34,190)</u>
Pro forma net earnings	<u>\$167,766</u>	<u>\$176,210</u>
Earnings per share:		
Basic - as reported	<u>\$0.33</u>	<u>\$0.35</u>
Basic - pro forma	<u>\$0.28</u>	<u>\$0.29</u>
Diluted - as reported	<u>\$0.32</u>	<u>\$0.34</u>
Diluted - pro forma	<u>\$0.28</u>	<u>\$0.29</u>

Note 5. Other Income, net

	Three Months Ended September 30,	
	<u>2003</u>	<u>2002</u>
Interest income on corporate funds	\$ (22,100)	\$ (39,704)
Interest expense	4,651	7,976
Realized gains on available-for-sale securities	(3,260)	(6,903)
Realized losses on available-for-sale securities	<u>2,117</u>	<u>913</u>
Other income, net	<u>\$ (18,592)</u>	<u>\$ (37,718)</u>

Proceeds from the sale of available-for-sale securities were \$0.9 billion for the three months ended September 30, 2003 and 2002.

Note 6. Comprehensive Income

	Three Months Ended September 30,	
	<u>2003</u>	<u>2002</u>
Net earnings	\$194,850	\$210,400
Other comprehensive income:		
Foreign currency translation adjustments	(63,658)	8,950
Unrealized gains(losses) on available-for-sale securities, net	<u>(47,042)</u>	<u>101,705</u>
Total comprehensive income	<u>\$ 84,150</u>	<u>\$321,055</u>

Note 7. Interim Financial Data by Segment

Employer Services, Brokerage Services and Dealer Services are the Company's largest business units. ADP evaluates the performance of its business units based on operating results before interest on corporate funds, foreign currency gains and losses and income taxes. Certain revenues and expenses are charged to business units at a standard rate for management and motivational reasons. Other costs are recorded based on management responsibility. Prior year's business unit revenues and earnings before income taxes have been adjusted to reflect updated fiscal year 2004 budgeted foreign exchange rates. In addition, Employer Services' prior year's revenues and earnings before income taxes were adjusted to include interest earned on client funds credited at 4.5%. Prior to fiscal year 2004, Employer Services was credited with interest earned on client funds at 6.0%. Given the decline in interest rates over recent years, the standard rate has been changed to 4.5%. "Other" consists primarily of Claims Services, miscellaneous processing services and corporate. Reconciling items for revenues and earnings before income taxes include foreign exchange differences between the actual foreign exchange rates and the fiscal year 2004 budgeted foreign exchange rates, and the adjustment for the difference between actual interest income earned on invested funds held for clients and interest credited to Employer Services at a standard rate of 4.5%. The business unit results also include an internal cost of capital charge related to the funding of acquisitions and other investments. This charge is eliminated in consolidation and as such represents a reconciling item to earnings before income taxes.

Segment Results (In millions):

	<u>Revenues</u>	
	<u>Three Months Ended</u>	
	<u>September 30,</u>	
	<u>2003</u>	<u>2002</u>
Employer Services	\$1,110	\$1,008
Brokerage Services	313	358
Dealer Services	211	195
Other	110	116
Reconciling items:		
Foreign exchange	(3)	(32)
Client fund interest	(21)	2
Total revenues	<u>\$1,720</u>	<u>\$1,647</u>
	<u>Earnings Before</u>	
	<u>Income Taxes</u>	
	<u>Three Months Ended</u>	
	<u>September 30,</u>	
	<u>2003</u>	<u>2002</u>
Employer Services	\$ 206	\$ 213
Brokerage Services	20	56
Dealer Services	32	30
Other	41	15
Reconciling items:		
Foreign exchange	-	(4)
Client fund interest	(21)	2
Cost of capital charge	33	28
Total earnings before income taxes	<u>\$ 311</u>	<u>\$ 340</u>

Note 8. Corporate Investments and Funds Held for Clients

	<u>September 30, 2003</u>		<u>June 30, 2003</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market securities and other cash equivalents:				
Corporate investments	\$ 1,351,711	\$ 1,351,711	\$ 1,410,218	\$ 1,410,218
Funds held for clients	<u>1,684,416</u>	<u>1,684,416</u>	<u>2,865,957</u>	<u>2,865,957</u>
Total money market securities and other cash equivalents	<u>3,036,127</u>	<u>3,036,127</u>	<u>4,276,175</u>	<u>4,276,175</u>
Available-for-sale securities:				
Corporate investments	959,616	965,459	917,026	934,125
Funds held for clients	<u>8,908,653</u>	<u>9,201,191</u>	<u>8,582,958</u>	<u>8,941,792</u>
Total available-for-sale securities	<u>9,868,269</u>	<u>10,166,650</u>	<u>9,499,984</u>	<u>9,875,917</u>
Total corporate investments and funds held for clients	<u>\$12,904,396</u>	<u>\$13,202,777</u>	<u>\$13,776,159</u>	<u>\$14,152,092</u>

All of the Company's marketable securities are considered to be "available-for-sale" at September 30, 2003 and June 30, 2003 and, accordingly, are carried on the Consolidated Balance Sheets at fair value.

Note 9. Goodwill and Intangible Assets, net

Changes in goodwill for the three months ended September 30, 2003 are as follows:

	<u>Employer Services</u>	<u>Brokerage Services</u>	<u>Dealer Services</u>	<u>Other</u>	<u>Total</u>
Balance as of June 30, 2003	\$1,287,128	\$366,775	\$215,134	\$112,094	\$1,981,131
Additions	823	400	-	-	1,223
Sale of business	(1,315)	-	-	-	(1,315)
Cumulative translation adjustments	(21,020)	(2,219)	(278)	(3,376)	(26,893)
Other	<u>(5,198)</u>	<u>(6,455)</u>	<u>-</u>	<u>-</u>	<u>(11,653)</u>
Balance as of September 30, 2003	<u>\$1,260,418</u>	<u>\$358,501</u>	<u>\$214,856</u>	<u>\$108,718</u>	<u>\$1,942,493</u>

Components of intangible assets are as follows:

	September 30, 2003	June 30, 2003
Intangible assets:		
Software licenses	\$ 588,876	\$ 575,440
Customer contracts and lists	525,069	538,673
Other	411,931	415,986
	<u>1,525,876</u>	<u>1,530,099</u>
Less accumulated amortization	(877,422)	(860,208)
Intangible assets, net	<u>\$ 648,454</u>	<u>\$ 669,891</u>

Other intangible assets consist primarily of purchased rights, covenants, patents and trademarks (acquired directly or through acquisitions). All of the intangible assets have finite lives and as such are subject to amortization. The weighted-average remaining useful life of the intangible assets is 11 years (2 years for software licenses, 14 years for customer contracts and lists and 14 years for other). Amortization of intangibles totaled \$34.3 million and \$27.3 million for the three months ended September 30, 2003 and 2002, respectively. Estimated amortization expenses of the Company's existing intangible assets over the remaining nine months of fiscal year 2004 and the succeeding five fiscal years is as follows:

	<u>Amount</u>
2004	\$ 97,064
2005	107,252
2006	67,601
2007	56,936
2008	53,514
2009	39,418

Note 10. Short-term Financing

In September 2003, the Company entered into a new \$4.5 billion, unsecured revolving credit agreement with certain financial institutions, replacing an existing \$4.0 billion credit agreement. The interest rate applicable to the borrowings is tied to LIBOR or prime rate depending on the notification provided to the syndicated financial institutions prior to borrowing. The Company is also required to pay a facility fee on the credit agreement. The primary uses of the credit facility are to provide liquidity to the unsecured commercial paper program and to fund normal business operations, if necessary. The Company has had no borrowings through September 30, 2003 under the credit agreements. The new \$4.5 billion credit agreement expires in September 2004.

In April 2002, the Company initiated a short-term commercial paper program providing for the issuance of up to \$4.0 billion in aggregate maturity value of commercial paper at the Company's discretion. The Company's commercial paper program is rated A-1+ by Standard and Poor's and Prime 1 by Moody's. These ratings denote the highest quality investment grade securities. Maturities of commercial paper can range from overnight to 270 days. The Company uses the commercial paper issuances as a primary instrument to meet short-term funding requirements related to client funds obligations. At September 30, 2003 and 2002, there was no commercial paper outstanding. For the three months ended September 30, 2003 and 2002, the Company had average borrowings of \$1.1 billion and \$1.3 billion, respectively, at an effective weighted average interest rate of 1.0% and 1.8%, respectively. The weighted average maturity of the Company's commercial paper during the three months ended September 30, 2003 was less than two days.

The Company's short-term financing is sometimes obtained on a secured basis through the use of repurchase agreements, which are collateralized principally by government and government agency securities. These agreements generally have terms ranging from overnight to up to ten days. At September 30, 2003 and 2002, there were no outstanding repurchase agreements. For the three months ended September 30, 2003 and 2002, the Company had an average outstanding balance of \$7.2 million and \$8.3 million, respectively, at an average interest rate of 2.5% and 2.8%, respectively.

Note 11. Commitments and Contingencies

It is not the Company's practice to enter into off-balance sheet arrangements. However, in the normal course of business, the Company does enter into contracts in which it makes representations and warranties that guarantee the performance of the Company's products and services as well as other indemnifications entered into in the normal course of business. Historically, there have been no material losses related to such guarantees and indemnifications.

Item 2. Management's Discussion And Analysis Of Financial Condition And Results Of Operations**CRITICAL ACCOUNTING POLICIES**

Our Consolidated Financial Statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates, judgments and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. We continually evaluate the accounting policies and estimates used to prepare the consolidated financial statements. The estimates are based on historical experience and assumptions believed to be reasonable under current facts and circumstances. Actual amounts and results could differ from these estimates made by management. Certain accounting policies that require significant management estimates and are deemed critical to our results of operations or financial position are discussed below.

Revenue Recognition. Our revenues are primarily attributable to fees for providing services (e.g., Employer Services' payroll processing fees and Brokerage Services' trade processing fees) as well as investment income on payroll funds, tax filing funds and other Employer Services client-related funds. We typically enter into agreements for a fixed fee per transaction (e.g., number of payees). Fees associated with services are recognized in the period services are rendered and earned under service arrangements with clients where service fees are fixed or determinable and collectibility is reasonably assured. Interest income on collected but not yet remitted funds held for clients is recognized in revenues as earned.

We also recognize revenues associated with the sale of software systems and associated software licenses. For a majority of our software sales arrangements, which provide hardware, software licenses, installation and post customer support, revenues are recognized ratably over the software license term as objective evidence of the fair values of the individual elements in the sales arrangement does not exist.

The majority of our revenues are generated from a fee for service model (e.g., fixed-fee per transaction processed) in which revenue is recognized when the related services have been rendered under written price quotations or service agreements having stipulated terms and conditions which do not require management to make any significant judgments or assumptions regarding any potential uncertainties.

Goodwill. We review the carrying value of all our goodwill in accordance with Statement of Financial Accounting Standard (SFAS) No. 142, "Goodwill and Other Intangible Assets," by comparing the carrying value of our reporting units to their fair values. We are required to perform this comparison at least annually or more frequently if circumstances indicate possible impairment. When determining fair value, we utilize various assumptions, including projections of future cash flows, our weighted average cost of capital and long-term growth rates for our business. Any significant adverse changes in key assumptions about our businesses and their prospects or an adverse change in market conditions may cause a change in the estimation of fair value and could result in an impairment charge. We have approximately \$1.9 billion of goodwill as of September 30, 2003. Given the significance of our goodwill, an adverse change to the fair value could result in an impairment charge, which could be material to our financial statements.

Income taxes. We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax liabilities and assets for the future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in addressing the future tax consequences of events that have been recognized in our financial statements or tax returns (e.g., realization of deferred tax assets, results of IRS and other tax authorities' examinations of our tax returns). Fluctuations in the actual outcome of these future tax consequences

could materially impact our financial statements.

RESULTS OF OPERATIONS

Analysis of Consolidated Operations

(In millions, except per share amounts)

	Three Months Ended		
	September 30,		
	<u>2003</u>	<u>2002</u>	<u>Change</u>
Total revenues	\$1,720	\$1,647	4%
Total expenses	\$1,409	\$1,307	8%
Earnings before income taxes	\$ 311	\$ 340	(9%)
Margin	18.1%	20.7%	
Provision for income taxes	\$ 116	\$ 130	(10%)
Effective tax rate	37.4%	38.2%	
Net earnings	\$ 195	\$ 210	(7%)
Diluted earnings per share	\$ 0.32	\$ 0.34	(6%)

Our consolidated revenues for the quarter increased 4% to \$1.7 billion, primarily due to an increase in Employer Services of 10% to \$1.1 billion and an increase at Dealer Services of 8% to \$211 million. These increases were offset by a decrease in our Brokerage Services business of 13%, or \$45 million. Interest on funds held for clients decreased 8% due to lower interest yields, despite higher average client balances during the period. Our revenue growth continues to be impacted by the weakness in the overall economy, consolidation in the financial services industry, decreased investor communications activity, and lower interest rates.

Earnings before income taxes for the quarter decreased 9% to \$311 million driven by decreases in Employer Services and Brokerage Services compared to the prior year. Employer Services' earnings before income taxes declined 3% due to previously announced incremental investments in our products and employer of choice initiatives as well as the integration of acquisitions completed during fiscal year 2003. Brokerage Services declined 64% compared to prior year due to the declines in revenues in the trade processing business, caused primarily by industry consolidations, and lower investor communications activity, particularly mutual fund mailings. Also contributing to the decline in consolidated earnings before income taxes was a decrease in other income of approximately \$19 million due primarily to a decrease in interest income on corporate funds.

For the quarter, the effective income tax rate decreased 0.8% to 37.4%, primarily due to a favorable mix in income among foreign and state tax jurisdictions, including the effect of the decline in the Canadian rate.

Net earnings for the quarter decreased 7% to \$195 million from \$210 million and the related diluted earnings per share decreased 6% to \$0.32 per share from \$0.34 per share. The decrease in net earnings primarily reflects the decrease in earnings before income taxes slightly offset by a lower effective tax rate. The decrease in diluted earnings per share reflects the decrease in net earnings, partially offset by fewer shares outstanding due to share repurchases throughout fiscal year 2003 which continued into the first quarter of 2004.

Analysis of Business Segments

Revenues

(In millions)

	Three Months Ended		
	September 30,		
	<u>2003</u>	<u>2002</u>	<u>Change</u>
Employer Services	\$1,110	\$1,008	10%
Brokerage Services	313	358	(13%)
Dealer Services	211	195	8%
Other	110	116	(5%)
Reconciling items:			
Foreign exchange	(3)	(32)	
Client fund interest	(21)	2	
Total revenues	<u>\$1,720</u>	<u>\$1,647</u>	4%

Earnings Before Income Taxes

(In millions)

	Three Months Ended		
	September 30,		
	<u>2003</u>	<u>2002</u>	<u>Change</u>
Employer Services	\$206	\$213	(3%)
Brokerage Services	20	56	(64%)
Dealer Services	32	30	9%
Other	41	15	173%
Reconciling items:			
Foreign exchange	-	(4)	
Client fund interest	(21)	2	
Cost of capital charge	<u>33</u>	<u>28</u>	
Total earnings before income taxes	<u>\$311</u>	<u>\$340</u>	(9%)

Revenues in our Employer Services business increased 10% for the quarter to \$1.1 billion as compared to the prior year. Internal revenue growth was approximately 5%. Despite the continued impact of the weak economy, Employer Services continues to grow primarily due to increases in our traditional U.S. payroll and tax businesses of approximately 8%, and strong growth of approximately 19% in our beyond payroll products, including our Professional Employer Organization business. Client retention continues to be strong, improving slightly over last year's record levels. New business sales declined 4% and pays per control, which represents the number of employees on our clients' payrolls, decreased less than .5% compared to last year. Earnings before income taxes in Employer Services decreased 3% for the quarter due primarily to our previously announced incremental investments in our products and employee retention initiatives, and the integration of acquisitions completed during 2003.

Brokerage Services revenues declined 13% for the quarter due to industry consolidations, which impacted trades per day, and reduced discretionary spending and investor communications activity. Trade processing revenues are down due to a 13% decline in average trades per day from 1.43 million to 1.25 million. Revenues per trade also declined due to the change in the mix of retail vs. institutional trades and industry consolidation. Revenues from investor communications are down due to the decline in pieces delivered from 155 million to 145 million. The decline in pieces is primarily due to delayed mutual fund meetings and fewer interim communications. Earnings before income taxes declined 64% in the quarter primarily due to the decline in revenues, particularly in trade processing and mutual fund mailings.

Dealer Services' revenues increased 8% in the quarter compared to the prior year. Growth has been generated by strong client retention and increased revenues in the traditional core business from strong system sales as well as from new businesses, primarily Application Services Provider (ASP) managed services, Networking, and Customer Relationship Management.

Earnings before income taxes for the quarter grew by 9% compared to the prior year due primarily to the increase in revenues.

The prior year's business unit revenues and earnings before income taxes have been adjusted to reflect updated fiscal year 2004 budgeted foreign exchange rates. In addition, Employer Services' prior year's revenues and earnings before income taxes were adjusted to include interest earned on client funds credited at 4.5%. Prior to fiscal year 2004, Employer Services was credited with interest earned on client funds at 6.0%. Given the decline in interest rates over recent years, the standard rate has been changed to 4.5%. "Other" consists primarily of Claims Services, miscellaneous processing services and corporate.

Reconciling items for revenues and earnings before income taxes include foreign exchange differences between the actual and the fiscal year 2004 budgeted foreign exchange rates, and the adjustment for the difference between actual interest income earned on invested funds held for clients and interest credited to Employer Services at a standard rate of 4.5%.

The business unit results also include a cost of capital charge related to the funding of acquisitions and other investments. This charge is eliminated in consolidation and as such represents a reconciling item to earnings before income taxes.

FINANCIAL CONDITION

Our financial condition and balance sheet remain strong. At September 30, 2003, we had cash and marketable securities of \$2.3 billion. Shareholders' equity was approximately \$5.3 billion and the ratio of long-term debt to equity was approximately 1.6%.

Capital expenditures for fiscal year 2004 are expected to be approximately \$175 million compared to \$134 million in fiscal year 2003.

LIQUIDITY AND CAPITAL RESOURCES

The primary source of our liquidity is our net earnings of \$195 million for the quarter. Cash flows generated from operations of \$164 million for the three months ended September 30, 2003 were down from \$237 million in the prior year, due primarily to a decrease in working capital caused by the timing of certain cash activity.

Cash flows used in investing activities totaled \$126 million for the three months ended September 30, 2003 and cash flows provided by investing activities totaled \$187 million for the three months ended September 30, 2002. The fluctuation between periods is primarily due to the timing of purchases and proceeds from sale of marketable securities, net proceeds from client fund money market securities and the net change in client funds obligations.

Cash flows used in financing activities totaled \$97 million for the three months ended September 30, 2003 compared to \$677 million in the prior year. The decrease in cash used in financing is primarily due to lower repurchases of common stock of approximately \$576 million. We purchased approximately 1.7 million shares of common stock at an average price per share of approximately \$39 during the period. As of September 30, 2003, we have remaining Board of Directors authorization to purchase up to 41.8 million additional shares.

During the three months ended September 30, 2003, approximately twenty percent of our overall investment portfolio was invested in cash and cash equivalents, which are impacted almost immediately by changes in short-term interest rates. The other eighty percent of our investment portfolio was invested in fixed-income securities, with varying maturities of less than ten years, which are also subject to interest rate risk, including reinvestment risk. We have historically had the ability to hold most of these investments until maturity and therefore, fluctuations in interest rates have not had an adverse impact on income or cash flows.

Details regarding our combined corporate investments and funds held for clients portfolios are as follows:

(In millions)	Three Months Ended	
	September 30,	
	<u>2003</u>	<u>2002</u>
Average investment balances at cost:		
Corporate investments	\$ 3,307.2	\$ 3,807.9
Funds held for clients	<u>9,252.8</u>	<u>7,628.7</u>
Total	<u>\$12,560.0</u>	<u>\$11,436.6</u>
Average interest rates earned exclusive of realized gains/ (losses) on corporate investments and funds held for clients (pre-tax)	3.4%	4.5%
Realized gains on available-for-sale securities	\$ 3.2	\$ 6.9
Realized losses on available-for-sale securities	(2.1)	(0.9)
Net realized gains	<u>\$ 1.1</u>	<u>\$ 6.0</u>
	September 30,	June 30,
	<u>2003</u>	<u>2003</u>
Unrealized pre-tax gains on available-for-sale securities	\$ 298.4	\$ 375.9
Total available-for-sale securities	\$10,166.7	\$ 9,875.9

The earnings impact of future interest rate changes is based on many factors, which influence the return on our portfolio. These factors include, among others, the overall portfolio mix between short-term and long-term investments. This mix varies during the year and is impacted by daily interest rate changes. A hypothetical change in interest rates of 25 basis points applied to estimated average investment balances for fiscal year 2004 would result in approximately an \$11.0 million impact to earnings before income taxes over the twelve-month period.

In September 2003, we entered into a new \$4.5 billion unsecured revolving credit agreement with certain financial institutions, replacing an existing \$4.0 billion credit agreement. The interest rate applicable to the borrowings is tied to LIBOR or prime rate depending on the notification provided to the syndicated financial institutions prior to borrowing. We are also required to pay a facility fee on the credit agreement. The primary uses of the credit facility are to provide liquidity to the unsecured commercial paper program and to fund normal business operations, if necessary. There have been no borrowings through September 30, 2003 under the credit agreements. The new \$4.5 billion credit agreement expires in September 2004.

In April 2002, we initiated a short-term commercial paper program providing for the issuance of up to \$4.0 billion in aggregate maturity value of commercial paper at our discretion. Our commercial paper program is rated A-1+ by Standard and Poor's and Prime 1 by Moody's. These ratings denote the highest quality investment grade securities. Maturities of commercial paper can range from overnight to 270 days. We use the commercial paper issuances as a primary instrument to meet short-term funding requirements related to client funds obligations. At September 30, 2003 and 2002, there was no commercial paper outstanding. For the three months ended September 30, 2003 and 2002, the Company had average borrowings of \$1.1 billion and \$1.3 billion, respectively, at an effective weighted average interest rate of 1.0% and 1.8%, respectively. The weighted average maturity of the Company's commercial paper during the three months ended September 30, 2003 was less than two days.

Our short-term financing is sometimes obtained on a secured basis through the use of repurchase agreements, which are collateralized principally by government and government agency securities. These agreements generally have terms ranging from overnight to up to ten days. At September 30, 2003 and 2002, there were no outstanding repurchase agreements. For the three months ended September 30, 2003 we had an average outstanding balance of \$7.2 million and \$8.3 million, respectively, at an average interest rate of 2.5% and 2.8%, respectively.

OTHER MATTERS

This report and other written or oral statements made from time to time by ADP may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Statements that are not historical in nature and which may be identified by the use of words like "expects," "projects," "anticipates," "estimates," "we believe," "could be" and other words of similar meaning, are forward-looking statements. These statements are based on management's expectations and assumptions and are subject to risks and uncertainties that may cause actual results to differ materially from those expressed. Factors that could cause actual results to differ materially from those contemplated by the forward-looking statements include: ADP's success in obtaining, retaining and selling additional services to clients; the pricing of products and services; changes in laws regulating payroll taxes, professional employer organizations and employee benefits; overall market and economic conditions, including interest rate and foreign currency trends; competitive conditions; stock market activity; auto sales and related industry changes; employment and wage levels; changes in technology; availability of skilled technical associates and the impact of new acquisitions and divestitures. ADP disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

Item 4. Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) of the Securities and Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures as of September 30, 2003 were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission's rules and forms.

There were no changes in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2003 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Except as noted below, all other items are either inapplicable or would result in negative responses and, therefore, have been omitted.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

<u>Exhibit Number</u>	<u>Exhibit</u>
31.1	Certification by Arthur F. Weinbach pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
31.2	Certification by Karen E. Dykstra pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934
32.1	Certification by Arthur F. Weinbach pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification by Karen E. Dykstra pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K during the fiscal quarter ended September 30, 2003.

None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AUTOMATIC DATA PROCESSING, INC.
(Registrant)

Date: November 5, 2003

/s/ Karen E. Dykstra
Karen E. Dykstra

Chief Financial Officer
(Title)

Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

I, Arthur F. Weinbach, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Automatic Data Processing, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2003

/s/ Arthur F. Weinbach
Arthur F. Weinbach
Chairman and Chief Executive Officer

Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934

I, Karen E. Dykstra, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Automatic Data Processing, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2003

/s/ Karen E. Dykstra
Karen E. Dykstra
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Automatic Data Processing, Inc. (the "Company") on Form 10-Q for the fiscal quarter ending September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Arthur F. Weinbach, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Arthur F. Weinbach
Arthur F. Weinbach
Chairman and Chief Executive Officer
November 5, 2003

CERTIFICATION OF CHIEF FINANCIAL OFFICER

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350,

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Automatic Data Processing, Inc. (the "Company") on Form 10-Q for the fiscal quarter ending September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Karen E. Dykstra, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Karen E. Dykstra
Karen E. Dykstra
Chief Financial Officer
November 5, 2003